

# FDIC State Profile

Spring 2005

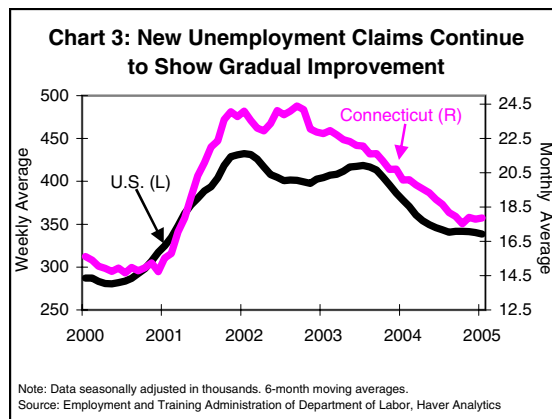
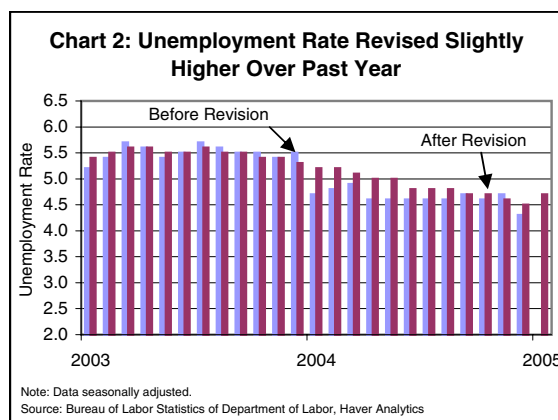
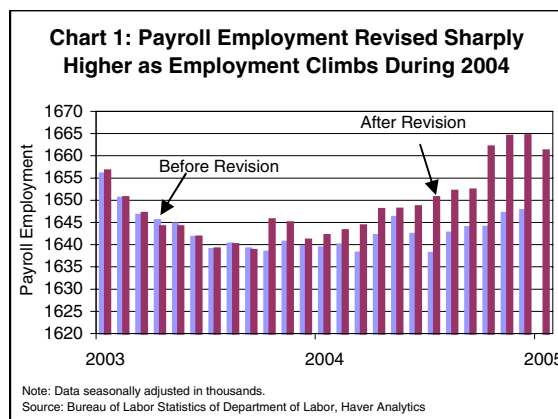
## Connecticut

Revised payroll data indicate the economy performed much better in Connecticut than originally reported.

- Restated payroll employment data cover the period July 2003 through year-end 2004. The new seasonally adjusted data show the recovery from the end of the recession has been stronger than first reported. Rather than gaining 9,600 jobs from the low in July 2004 through year-end, the increase is estimated as 25,800 dating from the low in employment in September 2003 (See Chart 1).
- Other new estimates covering 2004 show that the unemployment rate for Connecticut was raised from an average of 4.6 percent for the year to 4.9 percent. Monthly levels for 2003 and 2004 have been smoothed, however, so the unemployment rate is now steady or declining gradually within this two-year period (See Chart 2).

The new payroll data reveal that Connecticut has recovered about two-fifths of the jobs lost during the recession.

- Connecticut suffered a greater percentage of job losses than other New England states, with the exception of Massachusetts. From the peak in July 2000 through the trough in 2003, job losses in Connecticut were 3.6 percent. This compares with about a 2.1 percent loss of jobs nationally, but is well below the 6.1 percent loss in Massachusetts.
- The revised data show that about two-fifths of jobs lost in Connecticut have been recovered primarily during 2004. The pace of recovery according to the new data is impressive. At year-end 2004, Connecticut experienced a 12-month growth of 1.4 percent, which is better than New England as a whole and near the nation's 1.7 percent.
- Manufacturing in Connecticut continues to suffer, although employment recently has stabilized at lower levels. Like the nation, most of the gains in employment over the past year occurred in the service sector and they were particularly sizeable in education and health. Construction employment, however, also did well in Connecticut and was subject to a large upward revision in the payroll data.



## State Profile

### Unemployment insurance claims show improvement that parallels the nation.

- Initial unemployment insurance claims in Connecticut continued to decline when measured on a six-month moving average basis. The decline was similar to the trend of initial unemployment insurance claims nationally (See Chart 3).
- The improvement in the trend of new claims in Connecticut began in earnest at the start of 2003, while nationally, it began in the second half of 2003. The state still needs further improvement to reach pre-recession levels.

### Noninterest income is contributing less to bottom line profitability.

- Community banks, like their larger competitors, have been attempting to diversify sources of income through fee and other service revenue generation. Efforts have produced some favorable results, but 2004 results reflect a modest decline (See Chart 4).
- Most notably, gains on loan sales have declined after contributing significantly to noninterest income in 2003. Service charges on deposit accounts are a major source of noninterest income and have been flat perhaps in response to competitive pressures to maintain deposit share.

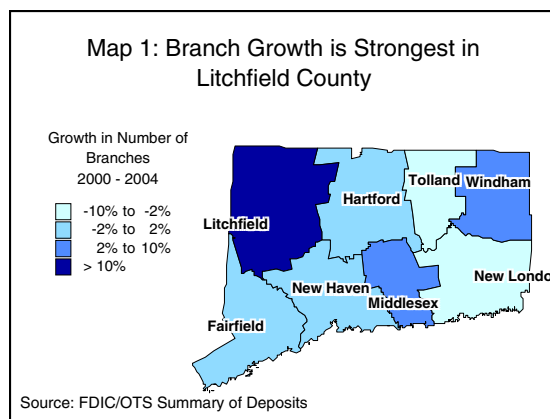
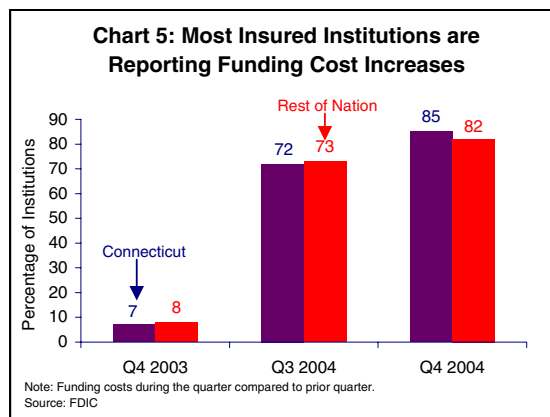
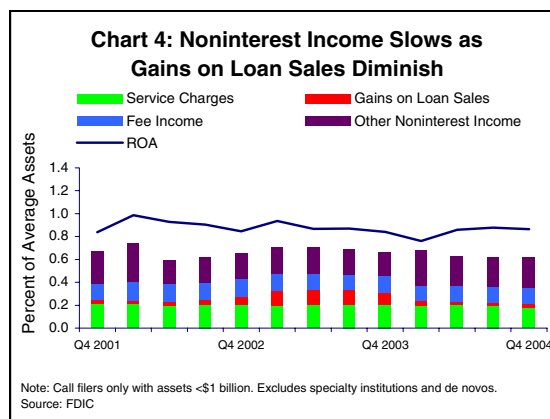
### Banks are facing increased funding costs.

- The vast majority of banks have experienced immediate increases in overall interest expense (See Chart 5). The increase in the federal funds rate since June 2004 contributed to higher funding costs.
- Competition for lower-cost, nonmaturity (demand, savings, and money market deposit accounts) deposits is increasing in the market place as banks position their balance sheets to mitigate the effect of rising interest rates on net interest margins.

### Connecticut has seen slow deposit growth and little branch expansion.

- Branches in Connecticut grew by only 0.4 percent between 2000 and 2004, compared with the national average of 3.9 percent. Real deposits, which are adjusted for inflation, grew 16 percent during the four years, well below the U.S. average of 25 percent.
- Litchfield** County experienced branch expansion of 11 percent over the four years, far exceeding other Connecticut counties (See Map 1). In 2004, Litchfield was the most heavily-banked county in Connecticut, with one branch for every 843 households, according to data from Claritas Demographics. At the other extreme, **Hartford** County averaged 1,269 households per branch.

- In two counties, **New London** and **New Haven**, growth in real deposits per branch surpassed the national average, with increases of 27 percent and 24 percent, respectively. This was achieved, however, not by strong deposit growth, but by reducing the number of branches in New London County by 6 percent and in New Haven by 1 percent.



## Connecticut at a Glance

**ECONOMIC INDICATORS** (Change from year ago quarter, unless noted)

<b>Employment Growth Rates</b>	<b>Q4-04</b>	<b>Q4-03</b>	<b>Q4-02</b>	<b>Q4-01</b>	<b>Q4-00</b>
Total Nonfarm (share of trailing four quarter employment in parentheses)	1.1%	-0.6%	-1.3%	-1.1%	1.1%
Manufacturing (12%)	0.2%	-4.2%	-6.2%	-6.7%	-0.9%
Other (non-manufacturing) Goods-Producing (4%)	6.9%	2.3%	-4.7%	-0.7%	4.4%
Private Service-Producing (69%)	1.3%	0.1%	-0.5%	-0.9%	1.3%
Government (15%)	-0.6%	-2.0%	-0.1%	3.2%	1.7%
Unemployment Rate (% of labor force)	4.6	5.4	5.1	3.5	2.2
<b>Other Indicators</b>	<b>Q4-04</b>	<b>Q4-03</b>	<b>Q4-02</b>	<b>Q4-01</b>	<b>Q4-00</b>
Personal Income	N/A	3.7%	0.4%	1.8%	8.2%
Single-Family Home Permits	14.9%	0.6%	0.2%	3.1%	1.5%
Multifamily Building Permits	-3.3%	348.2%	17.1%	-15.4%	-48.5%
Existing Home Sales	1.4%	7.7%	6.0%	0.0%	0.0%
Home Price Index	11.8%	9.4%	10.3%	9.3%	8.3%
Bankruptcy Filings per 1000 people (quarterly level)	0.74	0.81	0.83	0.75	0.72

**BANKING TRENDS**

<b>General Information</b>	<b>Q4-04</b>	<b>Q4-03</b>	<b>Q4-02</b>	<b>Q4-01</b>	<b>Q4-00</b>
Institutions (#)	57	63	67	69	69
Total Assets (in millions)	60,729	55,885	54,436	51,055	49,599
New Institutions (# < 3 years)	3	7	8	9	8
Subchapter S Institutions	1	1	1	1	1
<b>Asset Quality</b>	<b>Q4-04</b>	<b>Q4-03</b>	<b>Q4-02</b>	<b>Q4-01</b>	<b>Q4-00</b>
Past-Due and Nonaccrual Loans / Total Loans (median %)	0.78	0.82	1.06	1.06	1.08
ALLL/Total Loans (median %)	1.13	1.18	1.18	1.14	1.18
ALLL/Noncurrent Loans (median multiple)	3.39	2.73	2.90	2.47	2.54
Net Loan Losses / Total Loans (median %)	0.01	0.02	0.03	0.02	0.02
<b>Capital / Earnings</b>	<b>Q4-04</b>	<b>Q4-03</b>	<b>Q4-02</b>	<b>Q4-01</b>	<b>Q4-00</b>
Tier 1 Leverage (median %)	10.24	9.36	9.11	9.83	9.68
Return on Assets (median %)	0.83	0.81	0.85	0.79	0.95
Pretax Return on Assets (median %)	1.31	1.24	1.30	1.10	1.37
Net Interest Margin (median %)	3.71	3.66	3.77	3.76	3.87
Yield on Earning Assets (median %)	5.13	5.39	6.18	7.16	7.54
Cost of Funding Earning Assets (median %)	1.46	1.63	2.27	3.37	3.76
Provisions to Avg. Assets (median %)	0.04	0.06	0.09	0.07	0.07
Noninterest Income to Avg. Assets (median %)	0.51	0.55	0.57	0.54	0.46
Overhead to Avg. Assets (median %)	2.97	2.81	2.95	2.84	2.86
<b>Liquidity / Sensitivity</b>	<b>Q4-04</b>	<b>Q4-03</b>	<b>Q4-02</b>	<b>Q4-01</b>	<b>Q4-00</b>
Loans to Assets (median %)	65.7	59.1	60.5	60.7	62.6
Noncore Funding to Assets (median %)	19.2	16.4	16.0	15.4	13.8
Long-term Assets to Assets (median %, call filers)	22.5	26.0	22.1	20.2	20.2
Brokered Deposits (number of institutions)	13	9	5	5	5
Brokered Deposits to Assets (median % for those above)	1.6	0.6	0.1	0.1	3.3
<b>Loan Concentrations (median % of Tier 1 Capital)</b>	<b>Q4-04</b>	<b>Q4-03</b>	<b>Q4-02</b>	<b>Q4-01</b>	<b>Q4-00</b>
Commercial and Industrial	37.0	41.7	47.5	39.3	46.0
Commercial Real Estate	162.2	144.8	120.9	111.5	114.0
<i>Construction &amp; Development</i>	36.9	31.7	27.1	23.7	17.2
<i>Multifamily Residential Real Estate</i>	6.0	3.7	4.7	4.2	4.8
<i>Nonresidential Real Estate</i>	109.9	96.4	87.6	78.7	72.0
Residential Real Estate	361.5	371.5	395.5	373.8	401.3
Consumer	6.0	10.0	12.0	14.7	18.0
Agriculture	0.0	0.0	0.0	0.0	0.0

**BANKING PROFILE**

<b>Largest Deposit Markets</b>	<b>Institutions in Market</b>	<b>Deposits (\$ millions)</b>	<b>Asset Distribution</b>	<b>Institutions</b>
Hartford-West Hartford-East Hartford, CT	32	25,884	< \$250 mil.	26 (45.6%)
Bridgeport-Stamford-Norwalk, CT	25	23,106	\$250 mil. to \$1 bil.	23 (40.4%)
New Haven-Milford, CT	24	15,866	\$1 bil. to \$10 bil.	6 (10.5%)
Norwich-New London, CT	13	3,935	> \$10 bil.	2 (3.5%)